

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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AT&T CORP., :

01 Civ. 4872 (WHP)

Plaintiff, :

MEMORANDUM AND ORDER

-against- :

MICROSOFT CORPORATION, :

Defendant. :

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WILLIAM H. PAULEY III, District Judge:

Plaintiff AT&T Corp. ("AT&T") brings this patent infringement action against Microsoft Corporation ("Microsoft"), alleging that certain of Microsoft's products containing speech codecs¹ infringe its United States Reissue Patent No. 32,580 (the "580 patent"). Those accused products include, among others, Microsoft's NetMeeting video conferencing software, which is available in certain editions of Microsoft's Windows operating system. Microsoft denies infringement of the 580 patent and seeks dismissal of the complaint together with a declaratory judgment of noninfringement, invalidity and unenforceability of the 580 patent. See AT&T Corp. v. Microsoft Corp., 01 Civ. 4872 (WHP), 2003 WL 21459573 (S.D.N.Y. June 24, 2003). Familiarity with this Court's prior Memoranda and Orders is presumed.²

¹ "A speech codec is a software program that is capable of coding - converting a speech signal into a more compact code - and decoding - converting the more compact code back into a signal that sounds like the original speech signal." Amended Complaint ("Am. Compl.") ¶ 14.

² On June 24, 2003, this Court issued a Memorandum and Order construing certain claims in the 580 patent. AT&T Corp. v.

Currently before this Court is AT&T's motion for partial summary judgment on Microsoft's affirmative defenses of equitable estoppel and implied license. For the reasons set forth below, AT&T's motion for partial summary judgment is granted.

DISCUSSION

I. Summary Judgment Standard

Rule 56(c) of the Federal Rules of Civil Procedure provides that summary judgment "shall be rendered forthwith if the pleadings, depositions, answers to interrogatories and admissions on file, together with the affidavits, if any, show there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c); accord Celotex Corp. v. Catrett, 477 U.S. 317, 322 (1986); Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 247 (1986). The burden of demonstrating the absence of any genuine dispute as to a material fact rests with the moving party. See, e.g., Adickes v. S.H. Kress & Co., 398 U.S. 144, 157 (1970);

Microsoft Corp., 01 Civ. 4872 (WHP), 2003 WL 21459573 (S.D.N.Y. June 24, 2003). On September 3, 2003, this Court issued an Order amending its construction of the term "representative." AT&T Corp. v. Microsoft Corp., 01 Civ. 4872 (WHP) (S.D.N.Y. Sept. 3, 2003). Additionally, on November 5, 2003, this Court issued a Memorandum and Order granting Microsoft's motion for partial summary judgment limiting damages pursuant to the patent marking statute, 35 U.S.C. § 287(a). AT&T Corp. v. Microsoft Corp., 290 F. Supp. 2d 409 (S.D.N.Y. 2003).

Grady v. Affiliated Cent., Inc., 130 F.3d 553, 559 (2d Cir. 1997). The movant may meet this burden by demonstrating a lack of evidence to support the nonmovant's case on a material issue on which the nonmovant has the burden of proof. Celotex, 477 U.S. at 323.

To defeat a summary judgment motion, the nonmoving party must do "more than simply show that there is some metaphysical doubt as to the material facts." Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 586 (1986). Indeed, the nonmoving party must "set forth specific facts showing that there is a genuine issue for trial." Fed. R. Civ. P. 56(e); accord Matsushita Elec., 475 U.S. at 587. In evaluating the record to determine whether there is a genuine issue as to any material fact, the "evidence of the nonmovant is to be believed and all justifiable inferences are to be drawn in his favor." Liberty Lobby, 477 U.S. at 255.

II. Equitable Estoppel

"Equitable estoppel may be imposed in a patent case when a patentee induces another party to believe that it will not sue that party for infringement." Forest Labs., Inc. v. Abbott Labs., 339 F.3d 1324, 1329 (Fed. Cir. 2003). To prove the affirmative defense of equitable estoppel, an alleged infringer must establish by a preponderance of the evidence that: (1)

"[t]he patentee, through misleading conduct³, led the alleged infringer to reasonably infer that it did not intend to enforce its patent against the alleged infringer"; (2) "[t]he alleged infringer relie[d] on that conduct"; and (3) "[d]ue to its reliance, the alleged infringer will be materially prejudiced if the patentee is allowed to proceed with its infringement claim." A.C. Aukerman Co. v. R.L. Chaides Constr. Co., 960 F.2d 1020, 1028, 1046 (Fed. Cir. 1992) (en banc); accord Ecolab, Inc. v. Envirochem, Inc., 264 F.3d 1358, 1371 (Fed. Cir. 2001); Hemstreet v. Computer Entry Sys. Corp., 972 F.2d 1290, 1294 (Fed. Cir. 1992).

Even assuming arguendo that AT&T engaged in a course of misleading conduct which reasonably gave rise to an inference that it was not going to enforce the 580 patent against Microsoft, summary judgment is appropriate because Microsoft did not have knowledge of AT&T's 580 patent at the time it incorporated the accused codecs into its software. See AT&T Corp. v. Microsoft Corp., 290 F. Supp. 2d 409 (S.D.N.Y. 2003) (holding that AT&T notified Microsoft of its possible infringement in April 1999, long after the infringing codecs were incorporated into Microsoft's allegedly infringing software); MS

³ "'Conduct' may include specific statements, action, inaction, or silence where there was an obligation to speak." A.C. Aukerman Co. v. R.L. Chaides Constr. Co., 960 F.2d 1020, 1028 (Fed. Cir. 1992) (en banc).

Opp. at 22; Transcript of Oral Argument, dated December 22, 2003 ("Tr.") at 86. It is axiomatic that to assert equitable estoppel, the alleged infringer must have been aware of the patent at issue when it undertook its infringing activities. See, e.g., Auckerman, 960 F.2d at 1042; Winbond Elecs. Corp. v. I.T.C., 262 F.3d 1363, 1374 (Fed. Cir. 2001). Indeed, the Federal Circuit has held that "[i]t is clear . . . that [to assert] equitable estoppel the alleged infringer cannot be unaware -- as is possible under laches -- of the patentee and/or its patent." Auckerman, 960 F.2d at 1042. Microsoft concedes that it cannot establish knowledge of AT&T's 580 patent at the time it incorporated the accused codec into its software. (Tr. at 86 ("I will state for the record, Microsoft did not know of the '580 patent until it received a letter from AT&T in April of 1999."); MS Opp. at 22 ("Should . . . the Court determine that knowledge of the patent is a threshold requirement for estoppel, AT&T's motion should be granted . . . because it is undisputed that Microsoft lacked knowledge of the 580 patent before April 1999.").)

Specifically, Blake Irving, Microsoft's corporate designee responsible for development of its NetMeeting software, disclaimed knowledge of AT&T's 580 patent at the time of the alleged infringement:

Q: Besides the agreement with Intel was there anything else that gave Microsoft the belief that it wouldn't have any patent exposure from shipping NetMeeting?

A: No, not to my recollection.

Q: Besides the assurance from Intel that it was free to license this H.323 stack, was there anything else that led Microsoft to believe that it would not have any patent issues associated with using that code?

A: No.

Q: Isn't it true, then, that there was nothing that AT&T did vis-a-vis Microsoft that led Microsoft to the conclusion that it was free to include the H.323 stack within NetMeeting without a fear of patent infringement issues?

A: We were never contacted by AT&T about intellectual property or patent rights inside H.323 in any way.

Q: Well, you testified that the reason Microsoft concluded that it could include the H.323 stack within NetMeeting without fear of infringement issues was the assurance from Intel, correct?

A: Correct?

Q: And that was the only reason; correct?

A: Correct.

Q: So doesn't it stand to reason then that there's nothing that AT&T did vis-avis Microsoft that contributed to that decision?

A: That is correct.

Q: During your tenure as head of the NetMeeting development team did you ever come to the belief that AT&T had authorized Microsoft to practice G.723 technology without any fear of patent enforcement from AT&T?

A: Microsoft had no knowledge that AT&T had any patent claim against NetMeeting.

Q: Isn't it true, then, that during the time of the development of NetMeeting through its launch as a product, Microsoft never came to the conclusion that AT&T had authorized Microsoft to practice any patented technology associated with the G.723?

A: Microsoft was not aware that AT&T had any patent claims against NetMeeting.

Q: Well, my question was whether Microsoft ever came to the conclusion that AT&T had authorized Microsoft to practice any AT&T patents associated with G.723?

A: I guess I don't know how I answer that when we didn't know that AT&T was a patent holder or was making a claim, it's hard for me to - I don't know how to answer that question.

Q: Well, given that Microsoft wasn't aware that AT&T was a patent holder in the G.723 space, is it fair to say therefore that Microsoft did not believe that it had been authorized by AT&T to practice AT&T patents in that space?

A. Yes, I think that's fair.

Q: So the question now is: At any time did you personally ever come to believe that AT&T had authorized Microsoft to practice AT&T patents associated with G.723?

A: I never knew that AT&T had patents in the area; therefore, I never thought we were authorized on thinking they had any claims.

(Rule 30(b)(6) Deposition of Blake Irving, dated November 21, 2002 ("Irving Dep.") at 61-62, 65-66, 74-77.)

Summary judgment is additionally appropriate because Microsoft cannot establish reliance on AT&T's misleading conduct. See Auckerman, 960 F.2d at 1042-43 ("The second element, reliance, . . . is essential to equitable estoppel."); Forest Labs., 339 F.3d at 1329 ("Reliance by the [alleged infringer] as well as prejudice are required in order to estop the patentee from later suing."). To establish reliance "[t]he accused infringer must show that, in fact, it substantially relied on the misleading conduct of the patentee in connection with taking some action." Auckerman, 960 F.2d at 1042-43.

Microsoft notes that it worked with AT&T in developing Windows-based computers that contained its NetMeeting software with the accused codec, as well certain AT&T services. (MS Opp. at 12-19; Tr. at 91-93.) Microsoft argues that it relied on AT&T's silence concerning any infringement of the 580 patent when it employed the accused codec in its NetMeeting software. (Tr. at 88-89.) The undisputed evidence, however, does not support Microsoft's argument. Specifically, Irving's unrefuted deposition testimony undermines Microsoft's position. Irving unequivocally denied Microsoft's reliance on any AT&T misconduct in incorporating the accused codec into Microsoft's NetMeeting software. (Irving Dep. at 61-62, 65-66, 74-77.) Indeed, Irving repeatedly attributed Microsoft's implementation of the accused codec to Microsoft's desire to employ the latest ITU standard-

compliant technology⁴ and to assurances from non-party Intel that Microsoft was permitted to include the accused codec within its NetMeeting software. (Irving Dep. at 61-62, 65-66, 74-77; see also Deposition of Toby Lee Nixon, dated August 13, 2003 ("Nixon Dep.") at 61-63 (Microsoft's standards body representative attributing incorporation of accused codec into NetMeeting software solely to Intel's conduct); Deposition of Microsoft In-House Counsel, Cory Hunter Van Arsdale, Esq. ("Van Arsdale Dep.") at 21-23, 108 (no knowledge of AT&T authorizing Microsoft to practice the 580 patent).)

Microsoft submitted no evidence contradicting or even explaining Irving's disclaimer of reliance from which one might infer AT&T's consent to Microsoft's use of the accused codecs. Accordingly, Microsoft is not entitled to assert equitable estoppel. Auckerman, 960 F.2d at 1042-43 ("The accused infringer must show that, in fact, it substantially relied on the misleading conduct of the patentee in connection with taking some action.").

⁴ The International Telecommunications Union (the "ITU") is an organization that determines uniform standards for, inter alia, video and audio conferencing. The ITU recommended that audio codecs comply with a certain standard for uniformity in the marketplace, the G.723 or G.723.1 codec. AT&T alleges that the technology in its 580 patent is essential to practice this ITU standard and that Microsoft infringed its patent by incorporating the ITU standard codec, without authorization, into its NetMeeting software. See AT&T Corp., 290 F. Supp. 2d at 411 n.3.

Since Microsoft cannot establish reliance on AT&T's conduct or knowledge of the 580 patent, it cannot assert an affirmative defense of equitable estoppel as a matter of law. Auckerman, 960 F.2d at 1042-43.

III. Implied License

AT&T also moves to prohibit Microsoft from asserting the affirmative defense of implied license at trial. Whether an implied license exists is a question of law. Met-Coil Sys. Corp. v. Korner Unlimited, Inc., 803 F.2d 684, 687 (Fed. Cir. 1986). An implied license signifies a patent owner's "waiver of the statutory right to exclude others from making, using or selling the patented invention." Wang Labs., Inc. v. Mitsubishi Elecs. Am., Inc., 103 F.3d 1571, 1580 (Fed. Cir. 1997) (citations omitted). Essentially, it is an allegation that the patentee's statements or conduct led the accused infringer to infer consent to its use of the patent. Implied licenses may be granted through the theories of acquiescence, conduct, equitable estoppel, or legal estoppel. Wang Labs., 103 F.3d at 1580. These labels describe "different categories of conduct which lead to the same conclusion: an implied license." Wang Labs., 103 F.3d at 1580. The Federal Circuit has cautioned, however, that "judicially implied licenses are rare under any doctrine." Wang Labs., 103 F.3d at 1581. Microsoft asserts an implied license

based on equitable estoppel, acquiescence and conduct. (MS Opp. at 10; Pl. Ex. 2 at 36-39.) Microsoft bears the burden of proving the implied license affirmative defense. Bandag, Inc. v. Al Bolser's Tire Stores, Inc., 750 F.2d 903, 924 (Fed. Cir. 1984) (citing Bassick Mf'g Co. v. Adams Grease Gun Corp., 54 F.2d 285, 286 (2d Cir. 1931)).

A. Implied License by Equitable Estoppel

The test for implied license by equitable estoppel is nearly identical to that for equitable estoppel, requiring: (1) reliance by the alleged infringer on the patentee's conduct or lack of conduct in creating the infringing good; and (2) knowledge of the patent at the time of the infringement.⁵ Windbond, 262 F.3d at 1374; Aukerman, 960 F.2d at 1028, 1042-43. "One common thread in cases in which [implied license by] equitable estoppel applies is that the actor committed himself to act, and indeed acted, as a direct consequence of another's conduct." Bandag, 750 F.2d at 925 (reversing finding of implied license where alleged infringer could not show reliance) (citing H.M. Stickle v. Heublein, Inc., 716 F.2d 1550, 1559 (Fed. Cir.

⁵ The primary difference between implied license by equitable estoppel and the doctrine of equitable estoppel is that the former "looks for an affirmative grant of consent or permission to make, use, or sell: i.e., a license," and the latter "focuses on 'misleading' conduct suggesting that the patentee will not enforce patent rights." Wang Labs., 103 F.3d at 1581.

1983)). As noted, Microsoft cannot establish as a matter of law that it relied on AT&T's conduct or knew of the 580 patent at the time of the alleged infringement. See supra Section II; see also Windbond, 262 F.3d at 1374 (holding that alleged infringer could not assert an implied license by equitable estoppel because, like Microsoft, it was unaware of plaintiff's patent); Bandag, 750 F.2d at 925 (holding that an implied license based on equitable estoppel only applies where there is reliance). Accordingly, AT&T's motion for partial summary judgment on Microsoft's affirmative defense of implied license by equitable estoppel is granted.

B. Implied License by Conduct or Acquiescence

To establish an affirmative defense of implied license by conduct or acquiescence, Microsoft must show a nexus between AT&T's course of conduct or purported waiver of its patent rights and the allegedly infringing action. See, e.g., De Forest Radio Tel. & Tel. Co. v. United States, 273 U.S. 236, 241 (1927) (holding that an implied license exists where the patentee "consents to his use of the patent in making or using it, or selling it, upon which the other acts"); Wang Labs., 103 F.3d at 1582 (finding implied license where accused infringer relied on patentee's numerous public statements and conduct, showing clear acquiescence, in creating the infringing goods); Windbond, 262 F.3d at 1374 ("An implied license finding [under any theory]

requires a nexus between the patentee's purported waiver and the infringing action."); Bandag, 750 F.2d at 925-26 (reversing finding of implied license where accused infringer was unaware of patentee's actions, and thus did not rely on them, when it used infringing goods); H.M. Stickle, 716 F.2d at 1559 (affirming finding of no implied license because acts of infringement occurred after and apart from patentee's conduct and holding that "[o]ne must have been led to take action by the conduct of the other party").

Microsoft argues that AT&T's course of conduct with Microsoft established an implied license to practice the 580 patent technology in its NetMeeting software. An implied license may only be established where the infringer "properly inferred consent to its use of [plaintiff's] . . . patents." Wang Labs., 103 F.3d at 1582. Microsoft presents no evidence that it actually inferred that AT&T had consented to the use of its patented technology. Indeed, it is undisputed that Microsoft did not actually rely on any misleading conduct or inaction by AT&T here. As noted, Irving clearly and unequivocally denied relying on any alleged conduct or acquiescence by AT&T in incorporating the accused codec into Microsoft's NetMeeting software. See supra Section II (citing Irving Dep. at 61-62, 65-66, 74-77). Accordingly, Microsoft cannot sustain an affirmative defense of implied license by conduct or acquiescence as a matter of law.

CONCLUSION

For the reasons set forth above, AT&T's motion for partial summary judgment on Microsoft's affirmative defenses of implied license and equitable estoppel is granted and Microsoft is prohibited from asserting them at trial.

Dated: February 2, 2004
New York, New York

SO ORDERED:

/S/ WILLIAM H. PAULEY III /S/

WILLIAM H. PAULEY III
U.S.D.J.

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